



COMMONWEALTH OF KENTUCKY
OFFICE OF THE GOVERNOR

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May 30, 2008

Dear Fellow State Employee:

I write to you today to update you on my administration's continued efforts to enact pension reform to protect your retirement system.

As you know, during the last session, the House and Senate passed separate bills that were strikingly similar. As we had proposed, the legislation passed by both bodies **included no changes to the core pension benefits packages of state employees and retirees who are currently in the system.** As I discussed in our previous correspondence, the reform measures included modernizing benefits for future hires, lowering the cost of living adjustment to 1.5 percent, requiring new employees to contribute 1 percent of their salary to the health insurance fund, and reforming the practice of returning retirees.

I also want to clear up a common misunderstanding of the reform bill. House Bill 600, as well as the draft language I am proposing, would lower the COLA to 1.5%, effective July 1, 2009. Accordingly, your COLA this year would remain at the Consumer Price Index, a higher figure.

While there were small differences in the details, the issues that deadlocked the two bodies, while important, should not keep us from fixing the fundamental problem.

I have decided to take firm action.

Yesterday, I issued an Executive Order to create a new working group, composed of experts from government, the private sector, the cities and counties, and employee groups, to tackle two of the major cost drivers of the pension liability faced by the pension systems.

This group will recommend ways to improve investment return for the pension funds, and measures to finally get the state on track to meet its funding obligations to the pension systems.

I am also asking the working group to deal with the key issues that were in dispute during the legislative session involving governance of the systems and consideration of new models for future benefits. These issues have never been fully vetted, nor did they receive any recommendation from Governor Fletcher's Blue Ribbon Commission. I have directed the working group to have recommendations to me no later than November 1 so that they may be considered by the 2009 General Assembly.

But we must act now to stop the hemorrhaging of costs to our pension systems and to our cities, counties, and school districts.

Accordingly, yesterday I met with House and Senate leaders and asked them to work together to reach agreement in the next three weeks on the consensus issues so that we can act before June 30, the end of the fiscal year.

Passage of this limited pension reform is projected to save nearly \$500 million annually from the state's and local governments' obligations to fund the pension system. If the House and Senate can agree on these core

components in the next three weeks, I will call the General Assembly into a special session on June 23, 2008 to pass this measure.

If you are interested in reviewing the draft legislation, and summaries of my proposals, please check them out at www.finance.ky.gov.

I believe it is time to set aside issues that divide us, to identify all of the significant things we agree on, and work together to come up with a partial, but substantial, solution to the pension mess we are in. Delaying action would be detrimental to our local governments, to the taxpayers, and to the retirement systems.

I thank you for your time and attention and ask for your support in this important pension protection effort. I have great appreciation for our tremendously talented workforce and I am truly honored to serve as your governor.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Beshear". The signature is fluid and cursive, with the first name "Steve" and last name "Beshear" clearly distinguishable.

Steve Beshear